

VIA ELECTRONIC SUBMISSION

October 2, 2026

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comments on Agenda Item 2026-10: Proposed Amendments to SSAP No. 26—Bonds
(Principles-Based Bond Definition and Embedded ALM Risk)

Dear Members of the Statutory Accounting Principles (E) Working Group:

Dechert LLP submits these comments on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group (“SAPWG”) on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles (“SSAP”) No. 26, Bonds, that would introduce two new tests under the Principles-Based Bond Definition (“PBBD”): (1) a self-liquidation test for underlying financial assets under proposed Paragraph 9.c, and (2) an embedded Asset-Liability Management (“ALM”) risk test under proposed Paragraph 9.d. We submit these comments in our own capacity (having served as counsel to a variety of participants in the structured credit markets), and to better understand how the proposed revisions would affect our ability to advise our clients involved with such structures. As a firm, we have always tried to be constructively engaged in the ongoing dialogue around new regulatory initiatives and in no small part we believe our reputation in the structured credit markets reflects this engagement. As the markets and their investors continue to interconnect, we will increasingly endeavor to provide practical feedback to SAPWG on questions of importance to it.

As an initial matter, we note that we support and appreciate the objectives underlying the proposals and the NAIC’s role in bringing to the fore the application of those objectives with respect to multi-collateral structured credit investments. As we consider the concerns identified, they appear to us to be first and foremost disclosure and aggregation questions. In that regard, we would hope there are tools that already exist (or could be enhanced and improved) to adequately address them, including investment characteristic codes and look-through reporting of the kind used for rated note feeders. By corollary, we would respectfully submit that a security-level bond-classification test does not seem to be the right place to address these considerations.

For the reasons explained in more detail below, we would recommend that SAPWG not adopt proposed Paragraphs 9.c and 9.d in their current form. As currently drafted, the proposal does not distinguish structures that genuinely lack cash flow durability and structural protection, which is the risk the agenda item identifies, from established structured finance transactions whose reinvestment, refinancing, and revolving features are already bounded by proven structural safeguards. To assist your further consideration of this topic, we have attempted to lay out in more detail our thoughts with respect to the current proposal.

I. The Self-Liquidating Test (Proposed Paragraph 9.c)

Proposed Paragraph 9.c appears to create a binary test which classifies underlying financial assets as either strictly self-liquidating or not. If an asset does not convert entirely into cash over a defined period under its contractual terms, the reporting entity must overcome the rebuttable presumption framework in Paragraph 6 of SSAP No. 26. In our experience, this approach does not reflect the range of repayment structures routinely found in fixed-income and securitization markets. For example, a wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt.

Transactions that could be captured by the proposed language include, but are not limited to, credit card ABS, floorplan facilities, CRE structures, CLOs, CFOs, rated feeder notes, structured settlements, whole business securitizations, data center and fiber ABS, equipment and fleet lease, timeshare, solar and residential PACE, and CRE CLOs. These products existed at the time the PBBD was originally developed, and it does not appear to be intended that they would be subject to the rebuttable presumption of Paragraphs 6.a through 6.d of SSAP No. 26 simply because their underlying assets were not, in the strictest sense, fully self-liquidating.

We would also submit that the rating agencies have developed an intricate set of criteria for this same inquiry. Their starting premise for asset-backed securities and closed-end fund debt is that there is no market value in the structure: no asset sales are assumed to repay the debt, and under stress cases the collateral must generate sufficient proceeds to repay the rated notes by legal final maturity. That is the same meaningful cash flows inquiry that the first sentence of proposed Paragraph 9.d already asks, and it is an inquiry that credit rating providers already perform, publish, and monitor on an ongoing basis. Where multi-collateral credit vehicles are rated under established closed-end fund or ABS

methodologies, rating agencies have already confirmed the presence of material structural mitigants to ALM risk and reinvestment mismatch, and at investment-grade ratings these residual risks are established as minimal.

The breadth of the proposed test can be illustrated with a government-guaranteed example and a private-market one. Ginnie Mae MBS carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool becomes delinquent, the servicer may institute a partial claim principal deferral, structured as a zero-coupon balloon payment due on sale or maturity, to make the monthly payment more affordable for the borrower. A performing Ginnie Mae bond containing a single loan that received such a deferral would not be fully self-liquidating, and would therefore be presumptively not a bond under proposed Paragraph 9.c, even though that presumption would likely be overcome on the facts. The same dynamic is not unique to government-guaranteed collateral: a conventional commercial real estate mortgage loan with a balloon payment at maturity, or a credit card master trust that continuously revolves and replenishes its receivables pool, would also fail a strict self-liquidation test despite decades of performance history and no government backstop. Together, these examples suggest that the proposed test's breadth is not confined to any one asset class or guarantee structure, but rather reflects a structural limitation in the test's design that should be further considered.

Notwithstanding the various ways in which a self-liquidating asset may not fully convert to cash, the broader structured finance market and federal regulatory authorities have not taken such a strict view when determining what constitutes an "asset-backed security" for purposes of the Securities Exchange Act of 1934. In fact, taking such a strict view would theoretically open up loopholes that Congress and regulators did not intend.

To the extent duration is relevant to this analysis, we believe the proposal's focus on stated legal final maturity is the wrong metric. Stated maturity is an outer limit on repayment, not an expected payoff date. The expected weighted average life of a debt tranche, which reflects prepayment assumptions, reinvestment dynamics, and structural amortization mechanics, is typically considerably shorter, and senior investment-grade tranches often have weighted average lives that are half the length of their legal final maturity. A test anchored to stated maturity will systematically overstate the duration exposure these instruments actually present. Market precedent bears this out: whole business securitizations and data center and fiber ABS routinely carry legal final maturities of 25 to 30 years against Anticipated Repayment Dates ("ARDs") of only 5 to 7 years, coupled with post-ARD excess cash flow sweeps and coupon step-ups, and have been bond-eligible throughout. Music and other royalty-based ABS carry effectively perpetual underlying cash flows and legal maturities of

40 to 50 years, yet equally short ARDs, typically 3 to 10 years, with most of the market set at 5 years. A long legal final paired with an ARD sweep is established transaction architecture, tested through many market cycles.

II. The Significant Embedded ALM Risk Test (Proposed Paragraph 9.d)

Proposed Paragraph 9.d disqualifies an asset from bond treatment if it contains significant embedded ALM risk. This is defined as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. As drafted, there is no materiality qualifier, no probability or likelihood standard, and no safe harbor. Under that framing, we are concerned that virtually any structured instrument with a reinvestment feature could qualify, because the cash flow profile of any reinvesting structure is, in some theoretical sense, sensitive to reinvestment rates and spreads. We respectfully submit that this likely was not the intended scope of the provision, and that, if read literally, it would unintentionally affect the treatment of a large volume of outstanding structured products.

The proposal also treats embedded ALM risk as a single, undifferentiated concept. We think ALM risk is more usefully broken down into three distinct components: (i) interest rate and basis risk, (ii) reinvestment spread risk and (iii) extension risk. The reason we say that is because each is mitigated differently, and to a different degree, by structural features (in our experience) already present in the market. Floating-rate or hedged structures, for example, carry little to no meaningful rate risk, which narrows the relevant inquiry to spread and extension risk, precisely where collateral quality and eligibility covenants are strongest.

The first sentence of proposed Paragraph 9.d, which requires that cash flows be sufficient to pay all contractual amounts due, is a separate test from the embedded ALM risk sentence that follows it, and the two should not be conflated. That threshold cash flow adequacy inquiry is exactly the stressed cash flow sufficiency analysis that credit rating providers already run as part of their surveillance and initial rating processes, and satisfaction of that stressed cash flow test, whether through the safe harbor described in Part III below or through comparable quantitative modeling, should be recognized as the route by which a reporting entity demonstrates compliance.

In our experience, rated revolving structures always contain a number of structural features (and back-ups) that mitigate potential asset-liability mismatch. Short-tenor assets may turn over continuously at high velocity, such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances, replenishing the trust with newly

originated, market-priced assets. This dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants, such as minimum portfolio spread floors, weighted average life limits, and ongoing overcollateralization tests, which constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality. If eligible replacement collateral becomes unavailable, if performance deteriorates, or if reinvestment or performance triggers are breached, contractually mandated early amortization triggers may end the revolving period and redirect cash flows to amortize the senior notes. SAPWG itself recognizes that structured-credit reinvestment periods are commonly of limited duration and subject to early termination provisions. These protections demonstrate why the mere existence of reinvestment exposure should not determine whether ALM risk is significant. We believe SAPWG should consider whether an objective anchor for that term can be crafted. For example, embedded ALM risk should be considered significant only where it produces a projected shortfall to a rated class under the stress assumptions applied by an NAIC credit rating provider, not merely a theoretical sensitivity to future rates or spreads.

The agenda item's implicit premise appears to be that substantive credit enhancement was designed to absorb credit losses and never contemplated ALM risk. We respectfully submit that this premise warrants further scrutiny. Rating agency cash flow models run stressed interest rate vectors, spread compression, and default timing together, and subordination levels are sized to the combination of those stresses, not to credit risk alone. Embedded ALM risk should be assessed with this existing, integrated stress framework in mind.

III. Some Additional Observations

We would add several further observations drawn from our experience across the structured credit markets.

Complexity is not a perfect proxy for credit risk. The agenda item's concerns about complexity, transparency, and interconnectedness stem from the diversity of collateral within multi-collateral structures, which can make it harder to track an insurer's aggregate economic exposure. But the agenda item itself acknowledges that the credit quality and diversity of the collateral, together with the vehicle's capital structure, often supports a view that credit risk is comparable to, or lower than, equivalently rated single-collateral structures. A structure diversified across many obligors and asset classes is more complex to describe than a single bilateral loan, but that complexity is also what allows idiosyncratic underperformance to be absorbed across a pool and by subordination, rather than concentrated in one credit.

Performance history shows the utility of reinvesting structures. CLOs, the most rigorously tested managed reinvestment vehicle in global credit markets, have reinvested continuously into leveraged loans across multiple credit cycles, including the 2008 to 2009 financial crisis and the March 2020 dislocation, and AAA and AA CLO tranches have suffered no material principal losses across more than two decades of market cycles. That track record reflects the benefit of structured reinvestment managed by experienced investment managers. We believe this is a significant benefit over static structures that should be carefully considered as part of the proposals.

The proposal is, at this stage, premature. Multi-collateral structured credit investments are a relatively new addition to the structured credit landscape, and there is not yet a meaningful body of data documenting defaults, losses, or reinvestment-related underperformance in these structures. We respectfully submit that stripping bond eligibility from a class of instruments before there is data establishing that the targeted risk has actually materialized would be premature.

IV. Recommendation

We strongly believe the best approach to address the concerns motivating the proposals is a collaborative, data-driven approach. In that vein, we would suggest the following for consideration.

- a. *Enhanced reporting and disclosure.* Instead of excluding these structures from Schedule D-1, to the extent there are shortcomings in the information available to the investors, the NAIC might consider requiring enhanced reporting disclosures, such as specialized reporting codes or supplemental schedules, that give regulators greater look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This might resolve regulatory concerns about opacity, concentration risk, and circularity.
- b. *Objective criteria.* If the NAIC develops ALM guidelines in the future, we believe those criteria it be objective, methodology-anchored criteria. For all involved, it would be best for any such criteria to (i) recognize effective risk mitigants, including appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps, and (ii) provide a path for demonstrating through the meaningful cash flow test or quantitative modeling that ALM risk has been mitigated. SAPWG might also want to consider a safe harbor

under which a security rated by an NAIC credit rating provider whose published methodology meets certain standards is deemed not to carry significant embedded ALM risk. This anchors the test in existing public rating criteria and avoids a duplicative insurer-level model for every CUSIP.

- c. *Prospective application and grandfathering.* The exposure draft is silent on effective date and transition. SAPWG should state at the outset that any final revisions will apply only prospectively to new issuances and will grandfather securities already held by insurers, consistent with the treatment insurers relied on when the PBBD was originally adopted.
- d. *Clarify interaction with SSAP No. 43R.* Because the proposal operates through the existing rebuttable presumption framework under SSAP No. 26, SAPWG should clarify how the new tests are intended to interact with SSAP No. 43R and the rebuttable presumption more generally, so the two frameworks are not applied inconsistently to the same instrument.

Conclusion

Agenda Item 2026-10 raises valid considerations that, in our view, are not yet supported by empirical data and do not fully account for existing structural mitigants and rating agency methodologies already used in this market. We respectfully urge SAPWG to defer adoption of Agenda Item 2026-10 and to work with market participants on enhanced reporting, objective criteria, and further data collection before proceeding.

We would welcome the opportunity to discuss these comments further and to make ourselves available to SAPWG and its members.

Respectfully submitted,

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